MANX FINANCIAL

GROUP PLC

CONDENSED CONSOLIDATED INTERIM

FINANCIAL STATEMENTS 2019

Welcome to Manx Financial Group PLC
Integrity through independence and service

An independent banking group founded in 1935, domiciled in the Isle of Man

Manx Financial Group PLC ("MFG") is an AIM-listed company (LSE: MFX.L) which has subsidiaries engaged in a suite of financial services based in the Isle of Man and the UK. These companies offer financial services to both retail and commercial customers. MFG's strategy is to grow organically and through strategic acquisition to further augment the range of services it offers.

Principal wholly owned subsidiaries:
- Conister Bank Limited
- Conister Finance & Leasing Ltd
- Edgewater Associates Limited
- Manx FX Limited.

Conister Bank Limited ("the Bank") is a licensed independent bank, regulated by the Financial Services Authority in the Isle of Man, the Financial Conduct Authority in the UK and is a full member of the Isle of Man's Association of Licensed Banks.

The Bank provides a variety of financial products and services, including savings accounts, asset financing, personal loans, loans to small and medium sized enterprises, block discounting and other specialist secured credit facilities to the Isle of Man and the UK consumer and business sectors.

Conister Finance & Leasing Ltd ("CFL") is a subsidiary of the Bank. It is a credit broker providing brokerage of hire purchase and leasing finance facilities in the United Kingdom.

CFL is regulated by the Financial Services Authority in the Isle of Man and the Financial Conduct Authority in the UK.

Bluestar leasing is a finance broker providing asset finance and commercial loans in the United Kingdom to an expanding customer base.

Bluestar does not provide regulated products or services and is not regulated.

Edgewater Associates Limited ("EWA") is the largest independent financial adviser in the Isle of Man.

EWA provides a bespoke and personal service to Isle of Man residents and to the Group's business and personal customers and advises on assets in excess of £ 317 million (30 June 2018: £303 million, 31 December 2018: £310 million).

EWA provides services in the areas of wealth management, mortgages, general insurance, and retirement planning.

Manx FX Limited provides access to competitive foreign exchange and international payment processing facilities.

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CHAIRMAN'S STATEMENT

Dear Shareholders

I am pleased to present the half-year report for the period ended 30 June 2019.

We have performed within expectations for the first six months as we continue to strengthen the Group and Bank balance sheets without compromising our profitability. Our strategic initiatives in diversifying our geographic lending reach have accelerated with additional investment in our UK operations, centred at our Newbury office. We are moving away from sub-prime lending, diluting any reliance on unsecured consumer finance, particularly in motor finance. Our view of the latter recognises the fall in UK new car registrations and negative outlook recently reported by the Society of Motor Manufacturers & Traders.

This April, the Group completed the acquisition of Blue Star Business Solutions Limited and I am pleased to report that the integration of the company within our UK structure has been both seamless and profitable. The consolidation our FX advisory and our IFA businesses, both of which are now making significant contributions to Group profitability, is proceeding to plan. In short, I am confident that the Group's operations, including the Bank's loan portfolio, both business and consumer, are well positioned and resilient to deal with the uncertainties of the current market conditions and that our new business pipeline shows no signs of diminishing.

Financial Performance

Ten years ago, our consolidated retained earnings stood at negative £16.0 million. For the first time, we have eliminated this historic deficit. This is yet another milestone achieved as we add value to the Group.

Our operating income showed a commendable increase of 26.8% to £8.0 million (2018: £6.3 million), helped by a 19.5% growth in our net interest income to £8.9 million (2018: £7.4 million), together with a further reduction in commission expense, and a growth in other operating income. Indeed, I am pleased to note that we have been able to improve our net interest yield to 10.0% (2018: 9.1%), despite re-shaping our lending away from unsecured consumer loans. Against this, our operating expenses have grown by 33.2% to £6.6 million (2018: £4.9 million) which reflects both the increase in personnel and operating costs of the Bank's expansion at our recently established Newbury office, and an increase in the Bank's provisions to £1.5 million (2018: £0.4 million) following a rigorous review of our loan book. Whilst the latter figure may appear to be significant, in balance sheet terms, our cumulative provisions against the gross loan book stand at only 2.6% (2018: 2.2%) – a testament to the excellence of the Bank's credit underwriting. You will further note that this expense is the result of the prudent requirement to adopt the IFRS 9 accounting standard and this is an item which is under constant review. I must point out that, even with the Newbury expansion, in considering pure operating expenses against operating income, our cost-to-income ratio has decreased to 59.9% (2018: 70.6%). As a result, profit before tax for the six months was up 3.9% to £1.420 million (2018: £1.367 million).

Turning to our balance sheet, our loan book has increased by 30.0% to £170.0 million (2018: £130.8 million), reflecting a much more productive use of our cash and near cash, which has fallen by 43.6% to £36.5 million (2018: £64.7 million), as the interest yield on surplus liquidity remains low. I am particularly pleased with our lending performance which I anticipate will increase the loan book to a figure approaching the £200.0 million mark by the end of the year - remembering that, as recently as the 2015 Interims, our loan book stood at only £92.5 million. Our customer deposits have grown by 8.4% to £177.4 million (2018: £163.7 million) - all of which leads to an 8.1% growth in our total asset base to £219.1 million (2018: £202.7 million). Shareholder equity has increased by 13.5% to £21.0 million (2018: £18.5 million), providing net assets per share of 16.0 pence (2018: 14.1 pence). Observant shareholders will note that for the first time in many years, our retained earnings are now showing a positive figure of £0.3 million (2018: negative £2.2 million).

Strategic Objectives for 2019

Our strategic priorities for 2019 remain unchanged. Your Board's fundamental objective continues to be that of increasing shareholder value, both in a prudent yet progressive manner. I set out our 2019 key objectives in my last Chairman's Statement and now review our progress at the six-month point: -

- *Providing the highest quality service throughout our operations to all customers, ensuring that their treatment is both fair and appropriate*.

  Treating Customers Fairly ("TCF") is the cornerstone of all our operations and we strive to ensure that our customer service offering is second to none. The majority of our operations are regulated in both the Isle of Man and in the UK. As such, our TCF Committee regularly reviews complaints and compliments to identify trends which will improve our customer experience. Further, we continue to train our teams by focusing on improving our TCF culture, using the results of both internal and external surveys. We are required to keep detailed records of customer complaints and their resolution and I am pleased to report that we have again received a minimal number of complaints this year, of which only 11 were upheld following investigation - this against a combined customer base of over 10,000 people. As part of any TCF investigation, we consider the findings and regularly amend and enhance any relevant policy, procedure or training module.

- *Adopting a pro-active strategy of managing risk, especially following the implementation of IFRS 9 in full. In doing so, we are committed to regularly review our loan book to* *allow for any credit impairment resulting from observing strict Expected Credit Loss criteria*.

Our credit risk management process is constantly developing in line with the specific requirements of each of our business sectors. This allows us to more clearly identify potential credit issues and improve the Bank's ability to achieve a better outcome. Developing our credit risk strategy and its reporting plays an important part in optimising our loan book's performance. In line with this approach, we have increased our impairment allowance by £1.1 million (2018: £0.7 million) to represent 2.6% (2018: 2.2%) of the gross loan book and we will maintain our policy of strengthening our balance sheet to minimise the risk of any unforeseen event adversely affecting our profitability.

- *Concentrating on developing our core businesses by considered acquisitions, increased prudential lending and augmenting the range of financial services we offer*.

  During the first six months of this year, we have further augmented our capabilities at our Newbury office by the employment of additional staff, including increasing our underwriting and collection teams. This will facilitate the safe on-boarding of our considerable pipeline of new business opportunities as well as optimising the performance of our existing UK loan book. Our intention is to have our UK operation self-sufficient by year-end. We regularly review both our Isle of Man and UK product proposition and develop innovative customer-centric products that both complement our existing offerings and leverage our internal competencies. These new products are marketed initially to our current customers before being offered more broadly. The acquisition of Blue Star Business Solutions Limited has performed well and I expect to announce further purchases which will increase our market share in those areas we wish to develop.

- *Implementing an enhanced and scalable IT environment to provide better service the operational requirements of a growing Group without the requirement for a disproportionate increase in headcount*.

  Our core systems have been overhauled to simplify the customer experience. Our lending system now offers straight-through processing via an Isle of Man customer portal which we have further enhanced this year. By the end of June, this on-line distribution channel transacted 44% (2018: 0%) of our new business and I expect this to increase to more than 50% by the year-end. We are also developing similar portals for other aspects of our UK business. To gain greater efficiency, we have integrated document imaging into our workflows, and we are currently supplementing this with voice, text, email and rich media technology to support our collections activity. All of this is designed to optimise our loan book management and to allow growth to occur without a similar increase in headcount.

- *Focusing on the liabilities side of our balance sheet by introducing a new treasury management function and structure*.

  As we continue to utilise surplus liquidity in increased lending, our treasury management ensures that we adopt the best practice in utilising our funds. We are also in the process of developing attractive new deposit products for customers within a competitive interest rate risk strategy.

- *Managing our balance sheet to exceed, as far as possible, the regulatory requirements for capital adequacy*.

  We are well capitalised with our Risk Asset Ratio standing at 17.03% (Year-end 2018: 18.08%), but as our loan book grows our need for incremental regulatory capital will also grow. For the time being, we will maintain our strategy of converting our retained earnings into Tier 1 capital to support our lending. However, this strategy will have to be modified as, following my announcement in the 2018 Finals, your Board is considering the optimum method of providing shareholder return in the form of a dividend. This is a subject to which I will return at the year-end.

Current trading and outlook

I am pleased with the quality of new business we are generating across all our subsidiaries, and we continue to do this within our prudent risk criteria. I have every confidence that we will maintain this momentum during the second half, particularly given the performance to date, without compromising our careful and responsible lending practices. I am also confident that we will be able to announce certain acquisitions before the year-end which will further enhance our new business generation and hence, income.

We recognise that the economic and political indicators are challenging. But we must also remember that opportunities abound in such markets. As soon as the exit or not from the European Union is concluded, the economic outlook is likely to improve, and the Group is well placed to take advantage in both our existing and new marketplaces.

It remains for me, as always, to thank on behalf of the Board, our staff for their efforts in developing the Group in such a successful manner and our shareholders for their loyalty.

Jim Mellon
Executive Chairman

24 September 2019

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CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

	Notes	**For the six months ended 30 June 2019 £000 (unaudited)**	For the six months ended 30 June 2018 £000 (unaudited)	For the year ended 31 December 2018 £000 (audited)
Interest income	7	**10,813**	9,071	19,115
Interest expense		**(1,936)**	(1,644)	(3,547)
Net interest income		**8,877**	7,427	15,568
Fee and commission income		**1,816**	1,781	3,371
Fee and commission expense		**(2,934)**	(3,031)	(6,109)
Net trading income		**7,759**	6,177	12,830
Other operating income		**139**	56	131
(Loss) / gain on trading assets		**(3)**	24	(4)
Realised gain / (loss) on debt securities		**80**	(1)	135
Terminal funding	9	**27**	54	74
Operating income		**8,002**	6,310	13,166
Personnel expenses		**(3,102)**	(2,749)	(5,703)
Other expenses		**(1,692)**	(1,707)	(3,465)
Impairment on loans and advances to customers		**(1,469)**	(365)	(857)
Depreciation		**(281)**	(72)	(184)
Amortisation and impairment of intangibles		**(136)**	(114)	(396)
Share of profit of equity accounted investees, net of tax		**46**	45	30
VAT recovery	14	**52**	19	119
Profit before tax payable		**1,420**	1,367	2,710
Income tax expense		**(184)**	(145)	(243)
Profit for the period / year		**1,236**	1,222	2,467

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME (CONTINUED)

	Notes	**For the six months ended 30 June 2019 £000 (unaudited)**	For the six months ended 30 June 2018 £000 (unaudited)	For the year ended 31 December 2018 £000 (audited)
Profit for the period / year		**1,236**	1,222	2,467
Other comprehensive income ("OCI"):				
Items that will be reclassified to profit or loss				
Unrealised gain on debt securities		**27**	10	44
Items that will never be reclassified to profit or loss				
Actuarial loss on defined benefit pension scheme taken to equity		**-**	-	(50)
Total comprehensive income for the period / year		**1,263**	1,232	2,461
Earnings per share – Profit for the period / year				
Basic earnings per share (pence)	10	**0.94**	0.93	1.88
Diluted earnings per share (pence)	10	**0.77**	0.76	1.54
Earnings per share – Total comprehensive income for the period / year				
Basic earnings per share (pence)	10	**0.96**	0.94	1.88
Diluted earnings per share (pence)	10	**0.79**	0.77	1.54

The notes on pages 10 to 20 are an integral part of these condensed consolidated interim financial statements.

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at	Notes	**30 June 2019 £000 (unaudited)**	30 June 2018 £000 (unaudited)	31 December 2018 £000 (audited)
Assets				
Cash and cash equivalents		**8,916**	13,148	9,753
Debt securities	11	**27,583**	51,560	30,534
Trading assets	12	**17**	24	20
Loans and advances to customers	6,13	**170,035**	130,834	148,278
Trade and other receivables	14	**2,555**	2,125	2,491
Property, plant and equipment		**2,752**	515	1,384
Right of use assets	5	**654**	-	-
Intangible assets		**1,864**	2,083	1,952
Goodwill	15	**4,532**	2,344	2,344
Investment in associate		**204**	56	158
Total assets		**219,112**	202,689	196,914
Liabilities				
Deposits from customers		**177,414**	163,715	158,500
Creditors and accrued charges	16	**2,415**	3,452	2,010
Lease liability	5	**787**	-	-
Contingent consideration	20	**954**	-	-
Block creditors	17	**-**	415	138
Loan notes	18	**15,871**	15,971	15,871
Pension liability		**543**	560	584
Deferred tax liability		**142**	82	88
Total liabilities		**198,126**	184,195	177,191
Equity				
Called up share capital	19	**20,732**	20,732	20,732
Retained earnings		**254**	(2,238)	(1,009)
Total equity		**20,986**	18,494	19,723
Total liabilities and equity		**219,112**	202,689	196,914

The notes on pages 10 to 20 are an integral part of these condensed consolidated interim financial statements.

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2019	Notes	**Share capital £000**	**Retained earnings £000**	**Total equity £000**
Balance at 31 December 2018, as previously reported		**20,732**	**(1,009)**	**19,723**
Adjustment on initial application of IFRS 16	**5**	**-**	**-**	**-**
Adjusted balance at 1 January 2019*		**20,732**	**(1,009)**	**19,723**
Total comprehensive income for the period:				
Profit for the period		**-**	**1,236**	**1,236**
Other comprehensive income		**-**	**27**	**27**
Total comprehensive income for the period		**-**	**1,263**	**1,263**
Transactions with owners:				
Share-based payment expense		**-**	**-**	**-**
Shares issued		**-**	**-**	**-**
Total transactions with owners of the Company		**-**	**-**	**-**
Balance at 30 June 2019		**20,732**	**254**	**20,986**

* The Group has initially applied IFRS 16 at 1 January 2019, using the modified retrospective approach. Under this approach, comparative information is not restated and the cumulative effect of initially applying IFRS 16 is recognised in retained earnings at the date of initial application. See Note 5.

For the six months ended 30 June 2018	Share capital £000	Retained earnings £000	Total equity £000
Balance at 1 January 2018, as previously reported	20,732	(3,470)	17,262
Total comprehensive income for the period:			
Profit for the period	-	1,222	1,222
Other comprehensive income	-	10	10
Total comprehensive income for the period	-	1,232	1,232
Transactions with owners:			
Share-based payment expense	-	-	-
Shares issued	-	-	-
Total transactions with owners of the Company	-	-	-
Balance at 30 June 2018	20,732	(2,238)	18,494

The notes on pages 10 to 20 are an integral part of these condensed consolidated interim financial statements.

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

	Notes	**For the six months ended 30 June 2019 £000 (unaudited)**	For the six months ended 30 June 2018 £000 (unaudited)	For the year ended 31 December 2018 £000 (audited)
RECONCILIATION OF PROFIT BEFORE TAXATION TO OPERATING CASH FLOWS				
Profit before tax		**1,420**	1,367	2,710
Adjustments for:				
Depreciation		**281**	72	184
Amortisation and impairment of intangibles		**136**	114	396
Realised gain on debt securities		**(80)**	1	(135)
Share of profit of equity accounted investees		**(46)**	(19)	(30)
Contingent consideration interest expense		**8**	-	-
		1,719	1,535	3,125
Changes in:				
Trading asset		**3**	-	4
Trade and other receivables	14	**43**	(217)	(583)
Creditors and accrued charges	16	**230**	281	(1,169)
		1,995	1,599	1,377
Net cash flow from trading activities				
Changes in:				
Loans and advances to customers	6,13	**(21,757)**	(8,288)	(25,732)
Deposits from customers		**18,914**	21,443	16,228
Pension contribution		**(41)**	-	(26)
Cash (outflow) / inflow from operating activities		**(899)**	14,754	(8,153)
CASH FLOW STATEMENT				
Cash from operating activities				
Cash (outflow) / inflow from operating activities		**(889)**	14,754	(8,153)
Income taxes paid		**(149)**	(98)	(182)
Net cash (outflow) / inflow from operating activities		**(1,038)**	14,656	(8,335)
Cash flows from investing activities				
Purchase of property, plant and equipment		**(1,279)**	(137)	(1,118)
Purchase of intangible assets		**(48)**	(477)	(629)
Acquisition of subsidiary or associate, net of cash acquired	20	**(1,324)**	-	(90)
(Purchase) / sale of debt securities at fair value through OCI	11	**(6,001)**	-	3,917
Sale / (purchase) of debt securities at amortised cost	11	**9,059**	(17,279)	-
Net cash inflow / (outflow) from investing activities		**407**	(17,893)	2,080
Cash flows from financing activities				
Receipt of loan notes	18	**-**	6,976	6,876
Lease payments	5	**(68)**	-	-
Decrease in borrowings from block creditors	17	**(138)**	(336)	(613)
Net cash (outflow) / inflow from financing activities		**(206)**	6,640	6,263
Net (decrease) / increase in cash and cash equivalents		**(837)**	3,403	8
Cash and cash equivalents – opening		**9,753**	9,745	9,745
Cash and cash equivalents – closing		**8,916**	13,148	9,753
Included in cash flows are:				
Interest received – cash amounts		**10,489**	9,171	18,362
Interest paid – cash amounts		**(1,917)**	(1,635)	(3,434)

The notes on pages 10 to 20 are an integral part of these condensed consolidated interim financial statements.

1. Reporting entity

Manx Financial Group PLC ("the Company" or "MFG") is a company incorporated in the Isle of Man. These condensed consolidated interim financial statements ('interim financial statements') as at and for the six months ended 30 June 2019 comprise the Company and its subsidiaries (the "Group").

2. Basis of accounting

These interim financial statements have been prepared in accordance with IAS 34 *Interim Financial Reporting* and should be read in conjunction with the last annual consolidated financial statements as at and for the year ended 31 December 2018 ('last annual financial statements'). They do not include all of the information required for a complete set of IFRS financial statements. However, selected explanatory notes are included to explain events and transactions that are significant to an understanding of the changes in the Group's financial position and performance since the last annual financial statements.

This is the first set of the Group's interim financial statements in which IFRS 16 has been applied. Changes to significant accounting policies are described in Note 5.

3. Functional and presentation currency

These financial statements are presented in pounds sterling, which is the Group's functional currency. All amounts have been rounded to the nearest thousand, unless otherwise indicated. All subsidiaries of the Group have pounds sterling as their functional currency.

4. Use of judgements and estimates

In preparing these interim financial statements, management make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

The significant judgements made by management in applying the Group's accounting policies and key sources of estimation uncertainty were the same as those described in the last annual financial statements, except for the new significant judgements related to lessee accounting under IFRS 16, which are described in Note 5.

5. Changes in accounting policies

Except as described below, the accounting policies applied in these interim financial statements are the same as those applied in the last annual financial statements.

The changes in accounting policies are also expected to be reflected in the Group's consolidated financial statements as at and for the year ending 31 December 2019.

The Group has initially adopted IFRS 16 *Leases* from 1 January 2019. A number of other new standards are effective from 1 January 2019 but they do not have a material effect on the Group's financial statements.

IFRS 16 introduced a single, on-balance sheet accounting model for lessees. As a result, the Group, as a lessee, has recognised right of use assets representing its rights to use the underlying assets and lease liabilities representing its obligation to make lease payments. Lessor accounting remains similar to previous accounting policies.

The Group has applied IFRS 16 using the modified retrospective approach, under which the cumulative effect of initial application is recognised in retained earnings as at 1 January 2019. Accordingly, the comparative information presented for 2018 has not been restated – i.e. it is presented, as previously reported, under IAS 17 and related interpretations. The details of the changes in accounting policies are disclosed below.

A. Definition of a lease

Previously, the Group determined at contract inception whether an arrangement was or contained a lease under IFRIC 4 *Determining Whether an Arrangement contains a Lease.* The Group now assesses whether a contract is or contains a lease based on the new definition of a lease. Under IFRS 16, a contract is, or contains, a lease if the contract conveys a right to control the use of an identified asset for a period of time in exchange for consideration.

On transition to IFRS 16, the Group elected to apply the practical expedient to grandfather the assessment of which transactions are leases. It applied IFRS 16 only to contracts that were previously identified as leases. Contracts that were not identified as leases under IAS 17 and IFRIC 4 were not reassessed. Therefore, the definition of a lease under IFRS 16 has been applied only to contracts entered into or changed on or after 1 January 2019.

B. As a lessee

The Group leases many assets, including properties and IT equipment.

As a lessee, the Group previously classified leases as operating or finance leases based on its assessment of whether the lease transferred substantially all of the risks and rewards of ownership. Under IFRS 16, the Group recognises right of use assets and lease liabilities for most leases, that is these leases are presented on the Statement of Financial Position.

5. Changes in accounting policies (continued)
B. As a lessee (continued)

However, the Group has elected not to recognise right of use assets and lease liabilities for some leases of low-value assets. The Group recognises the lease payments associated with these leases as an expense on a straight-line basis over the lease term. The Group presents right of use assets and lease liability separately on the Statement of Financial Position.

i. Significant accounting policies

The Group recognises a right of use asset and a lease liability at the lease commencement date. The right of use asset is initially measured at cost, and subsequently at cost less accumulated depreciation and impairment loss and adjusted for certain remeasurements of the lease liability.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Group's incremental borrowing rate. Generally, the Group uses its incremental borrowing rate as the discount rate.

The lease liability is subsequently increased by the interest cost of the lease liability and decreased by the lease payment made. It is remeasured when there is a change in future lease payments arising from a change in an index or rate, a change in the estimate of the amount expected to be payable under a residual value guarantee, or as appropriate, changes in the assessment of whether a purchase or extension option is reasonably certain to be exercised, or a termination option is reasonably certain not to be exercised.

The Group has applied judgment to determine the lease term for some lease contracts in which it is a lessee that include renewal options. The assessment of whether the Group is reasonably certain to exercise such options impacts the lease term, which significantly affects the amount of lease liabilities and right of use assets recognised.

ii. Impacts on transition

Previously, the Group classified property leases as operating leases under IAS 17. The leases typically run for a period of 10 years. The operating lease commitment relating to these leases at 31 December 2018 as disclosed in the Group's consolidated financial statements was £1,166,000.

At transition, for leases classified as operating leases under IAS 17, lease liabilities were measured at the present value of the remaining lease payments, discounted at the Group's incremental borrowing rate as at 1 January 2019. The weighted average rate applied is 5.5% per annum.

Right of use assets are measured at an amount equal to the lease liability, adjusted by the amount of net prepaid and accrued lease payments of £118,234.

The impact on transition is summarised below.

As at 1 January 2019	£000
Right of use assets	737
Net accrued operating lease payments	118
Lease liabilities	(855)
Retained earnings	-

iii. Impacts for the period

Right of use assets

The carrying amount of right of use assets at the end of the period is as follows:

	Property £000	Right of use assets £000
Balance at 1 January 2019	737	737
Depreciation expense	(83)	(83)
Balance at 30 June 2019	654	654

Lease liability

The carrying amount of lease liability at the end of the period is as follows:

	Property £000	Lease liability £000
Balance at 1 January 2019	855	855
Interest expense	24	24
Rent payment	(92)	(92)
Balance at 30 June 2019	787	787

5. Changes in accounting policies (continued)
B. As a lessee (continued)

iii. Impacts for the period (continued)

The Group has classified cash payments for the principal portion of lease payments as financing activities.

iv. Exemptions taken

The Group used the following practical expedients when applying IFRS 16 to leases previously classified as operating leases under IAS 17:

- Applied the exemption not to recognise right of use assets and liabilities for leases with less than 12 months of lease term; and
- Exclude initial direct costs from measuring the right of use asset at the date of initial application.

C. As a lessor

The accounting policies applicable to the Group as a lessor are not different from those under IAS 17.

The Group is not required to make any adjustments on transition to IFRS 16 for leases in which it acts as a lessor.

6. Credit risk

A summary of our current policies and practices for the management of credit risk is set out in 'Note 8 – Financial risk review', 'Note 36 – Financial risk management' on page 40 and 63 respectively of the Annual Financial Statements 2018.

An explanation of the terms 'Stage 1', 'Stage 2' and 'Stage 3' is included in "Note 38 (I)(vii)" on page 73 of the last annual financial statements.

Summary of credit risk on loans and advances to customers

As at 30 June 2019	Stage 1 £000	Stage 2 £000	Stage 3 £000	Total £000 (unaudited)
Grade A[1]	161,124	-	-	161,124
Grade B	1,439	3,077	98	4,614
Grade C	-	1,627	7,206	8,833
Gross value	162,563	4,704	7,304	174,571
Allowance for expected credit loss	(170)	(862)	(3,504)	(4,536)
Carrying value	162,393	3,842	3,800	170,035

As at 30 June 2018	Stage 1 £000	Stage 2 £000	Stage 3 £000	Total £000 (unaudited)
Grade A[1]	126,129	-	-	126,129
Grade B	588	1,406	106	2,100
Grade C	-	1,271	4,298	5,569
Gross value	126,717	2,677	4,404	133,798
Allowance for expected credit loss	(110)	(450)	(2,404)	(2,964)
Carrying value	126,607	2,227	2,000	130,834

6. Credit risk (continued)

Summary of credit risk on loans and advances to customers (continued)

As at 31 December 2018	Stage 1 £000	Stage 2 £000	Stage 3 £000	Total £000 (audited)
Grade A[1]	139,695	-	-	139,695
Grade B	760	5,308	85	6,153
Grade C	-	1,746	4,078	5,824
Gross value	140,455	7,054	4,163	151,672
Allowance for expected credit loss	(125)	(143)	(3,126)	(3,394)
Carrying value	140,330	6,911	1,037	148,278

[1] Loans are graded A to C depending on the level of risk. Grade C relates to agreements with the highest of risk, Grade B with medium risk and Grade A relates to agreements with the lowest risk.

Summary of overdue status of loans and advances to customers

As at 30 June 2019	**Stage 1 £000**	**Stage 2 £000**	**Stage 3 £000**	**Total £000 (unaudited)**
Current	**161,469**	**-**	**-**	**161,469**
Overdue < 30 days	**4,562**	**-**	**-**	**4,562**
Overdue ≥ 30 days	**64**	**2,975**	**5,501**	**8,540**
	166,095	**2,975**	**5,501**	**174,571**

As at 30 June 2018	Stage 1 £000	Stage 2 £000	Stage 3 £000	Total £000 (unaudited)
Current	123,994	-	-	123,994
Overdue < 30 days	2,623	-	-	2,623
Overdue ≥ 30 days	100	2,677	4,404	7,181
	126,716	2,677	4,404	133,798

As at 31 December 2018	Stage 1 £000	Stage 2 £000	Stage 3 £000	Total £000 (audited)
Current	137,196	-	-	137,196
Overdue < 30 days	2,499	-	-	2,499
Overdue ≥ 30 days	760	7,054	4,163	11,977
	140,455	7,054	4,163	151,672

7. Interest income

Interest income represents charges and interest on finance and leasing agreements attributable to the period or year after adjusting for early settlements and interest on bank balances, excluding the Terminal funding portfolio.

8. Operating segments

Segmental information is presented in respect of the Group's business segments. The Directors consider that the Group currently operates in one geographic segment comprising of the Isle of Man, UK and Channel Islands. The primary format, business segments, is based on the Group's management and internal reporting structure. The Directors consider that the Group operates in three (2018: five) product orientated segments in addition to its investing activities: Asset and Personal Finance (including provision of HP contracts, finance leases, personal loans, commercial loans, block discounting, vehicle stocking plans and wholesale funding agreements); Edgewater Associates and Manx FX.

For the 6 months ended 30 June 2019	**Asset and Personal Finance £000**	**Edgewater Associates £000**	**Manx FX £000**	**Conister Card Services £000**	**Manx Incahoot £000**	**Investing Activities £000**	**Total 30 June 2019 £000 (unaudited)**
Net interest income / (expense)	9,332	-	-	-	-	(455)	8,877
Operating income / (expense)	6,591	1,276	290	-	(10)	(145)	8,002
Profit / (loss) before tax payable	1,863	278	79	-	(98)	(702)	1,420
Capital expenditure	1,327	-	-	-	-	-	1,327
Total assets	211,106	3,388	239	-	118	4,261	219,112

For the 6 months ended 30 June 2018	Asset and Personal Finance £000	Edgewater Associates £000	Manx FX £000	Conister Card Services £000	Manx Incahoot £000	Investing Activities £000	Total 30 June 2018 £000 (unaudited)
Net interest income / (expense)	7,764	-	-	-	-	(337)	7,427
Operating income / (expense)	4,925	1,300	472	(60)	10	(337)	6,310
Profit / (loss) before tax payable	1,606	241	332	(61)	(88)	(663)	1,367
Capital expenditure	441	169	3	-	1	-	614
Total assets	194,826	2,460	449	49	276	4,629	202,689

For the year ended 31 December 2018	Asset and Personal Finance £000	Edgewater Associates £000	Manx FX £000	Conister Card Services £000	Manx Incahoot £000	Investing Activities £000	Total 31 Dec 2018 £000 (audited)
Net interest income / (expense)	15,568	-	-	-	-	-	15,568
Operating income / (expense)	9,306	2,562	493	-	12	-	13,166
Profit / (loss) before tax payable	2,267	245	490	(3)	(189)	(100)	2,710
Capital expenditure	1,589	150	6	-	1	1	1,747
Total assets	190,923	3,153	608	-	78	2,152	196,914

9. Terminal funding

In September 2014, the Bank discontinued funding handheld payment devices (referred to as Terminal funding) due to the volume of write offs. Ever since, the book is being run off whilst the Bank vigorously pursues historical write offs.

	For the 6 months ended 30 June 2019 £000 (unaudited)	For the 6 months ended 30 June 2018 £000 (unaudited)	For the year ended 31 Dec 2018 £000 (audited)
Interest income	**27**	73	181
Fee and commission expense	**-**	(4)	(5)
Provision for impairment on loan assets	**-**	(15)	(102)
	27	54	74

10. Earnings per share

	For the 6 months ended 30 June 2019 (unaudited)	For the 6 months ended 30 June 2018 (unaudited)	For the year ended 31 Dec 2018 (audited)
Profit for the period / year	**£1,236,000**	£1,222,000	£2,467,000
Weighted average number of ordinary shares in issue (basic)	**131,096,235**	131,096,235	131,096,235
Basic earnings per share (pence)	**0.94**	0.93	1.88
Diluted earnings per share (pence)	**0.77**	0.76	1.54
Total comprehensive income for the period / year	**£1,263,000**	£1,232,000	£2,461,000
Weighted average number of ordinary shares in issue (basic)	**131,096,235**	131,096,235	131,096,235
Basic earnings per share (pence)	**0.96**	0.94	1.88
Diluted earnings per share (pence)	**0.79**	0.77	1.54

The basic earnings per share calculation is based upon the profit for the period / year after taxation and the weighted average of the number of shares in issue throughout the period / year.

As at:	**30 June 2019 (unaudited)**	30 June 2018 (unaudited)	31 Dec 2018 (audited)
Reconciliation of weighted average number of ordinary shares in issue between basic and diluted			
Weighted average number of ordinary shares (basic)	**131,096,235**	131,096,235	131,096,235
Number of shares issued if all convertible loan notes were exchanged for equity	**41,666,667**	41,666,667	41,666,667
Dilutive element of share options if exercised	**10,366**	30,502	10,366
Weighted average number of ordinary shares (diluted)	**172,773,268**	172,793,404	172,773,268
Reconciliation of profit for the period / year between basic and diluted			
Profit for the period / year (basic)	**1,236,000**	1,222,000	2,467,000
Interest expense saved if all convertible loan notes were exchanged for equity	**98,000**	98,000	196,000
Profit for the period / year (diluted)	**1,334,000**	1,320,000	2,663,000

The diluted earnings per share calculation assumes that all convertible loan notes, warrants (where applicable) and share options have been converted / exercised at the beginning of the period where they are dilutive.

10. Earnings per share (continued)

As at:	30 June 2019 (unaudited)	30 June 2018 (unaudited)	31 Dec 2018 (audited)
Reconciliation of total comprehensive income for the period / year between basic and diluted			
Total comprehensive income for the period / year (basic)	**1,263,000**	1,232,000	2,461,000
Interest expense saved if all convertible loan notes were exchanged for equity	**98,000**	98,000	196,000
Total comprehensive income for the period / year (diluted)	**1,361,000**	1,330,000	2,657,000

11. Debt securities

As at:	30 June 2019 £000 (unaudited)	30 June 2018 £000 (unaudited)	31 Dec 2018 £000 (audited)
Financial assets at fair value through other comprehensive income:			
UK Government treasury bills	**21,581**	51,560	30,534
Financial assets at amortised cost:			
UK Certificates of Deposit	**6,002**	-	-
	27,583	51,560	30,534

UK Government Treasury Bills are stated at fair value and unrealised changes in the fair value are reflected in equity.

12. Trading assets

The investment represents shares in a UK quoted company, elected to be classified as a financial asset at fair value through profit or loss. The investment is stated at market value and is classified as a level 1 investment in the IFRS 13 fair value hierarchy. The cost of the shares was £471,000. The unrealised difference between cost and market value has been taken to the income statement. Dividend income of £360,500 (30 June 2018: £350,000 and 31 December 2018: £355,000) and £24,000 (30 June 2018: £24,000 and 31 December 2018: £24,000) of sale proceeds have been received from this investment since it was made. The investment made a net unrealised loss of £3,000 (30 June 2018: Gain of £24,000 and 31 December 2018: Loss of £4,000) during the period.

13. Loans and advances to customers

As at:	Gross Amount £000	Specific Provision £000	ECL Allowance £000	30 June 2019 Carrying Value £000 (unaudited)	30 June 2018 Carrying Value £000 (unaudited)	31 Dec 2018 Carrying Value £000 (audited)
HP balances	**63,026**	**(1,483)**	**(109)**	**61,434**	56,177	57,622
Finance lease balances	**32,326**	**(1,563)**	**(143)**	**30,620**	21,108	25,687
Wholesale funding arrangements	**29,147**	**(618)**	**(108)**	**28,421**	9,747	22,944
Block discounting	**20,437**	**-**	**-**	**20,437**	17,946	17,316
Unsecured personal loans	**11,679**	**(212)**	**(19)**	**11,448**	13,906	14,424
Secured commercial loans	**10,672**	**(272)**	**(9)**	**10,391**	403	1,922
Secured personal loans	**5,725**	**-**	**-**	**5,725**	10,047	6,877
Vehicle stocking plans	**1,559**	**-**	**-**	**1,559**	1,500	1,486
	174,571	**(4,148)**	**(388)**	**170,035**	130,834	148,278

14. Trade and other receivables

As at:	30 June 2019 £000 (unaudited)	30 June 2018 £000 (unaudited)	31 Dec 2018 £000 (audited)
VAT claim	**988**	862	936
Prepayments	**217**	273	382
Other debtors	**1,350**	990	1,173
	2,555	2,125	2,491

Included in trade and other receivables is an amount of £988,000 (30 June 2018: £862,000 and 31 December 2018: £936,000) relating to a reclaim of VAT. The Bank, as the Group VAT registered entity, has for some time considered the VAT recovery rate being obtained by the business was neither fair nor reasonable, specifically regarding the attribution of part of the residual input tax relating to the HP business not being considered as a taxable supply. Queries have been raised with the Isle of Man Government Customs & Excise Division ("C&E"), and several reviews of the mechanics of the recovery process were undertaken by the Company's professional advisors.

The decision of the First-Tier Tax Tribunal released 18 August 2011 in respect of Volkswagen Financial Services (UK) Limited ("VWFS") v HM Revenue & Customs (TC01401) ("VWFS Decision") added significant weight to the case put by the Bank and a request for a revised Partial Exemption Special Method was submitted in December 2011.

The proposal put forward by the Bank was that the revised method would allocate 50.0% of costs in respect of HP transactions to a taxable supply and 50.0% to an exempt supply. In addition, a Voluntary Disclosure was made as a retrospective claim for input VAT under-claimed in the last 4 years. A secondary claim was also made to cover periods Q4 2012 to Q1 2016 for the value of £230,000 and an amount of £249,000 has been accrued to cover periods Q2 2016 to Q4 2018. An additional claim of £52,000 has been accrued for the 6 month period ended 30 June 2019.

In November 2012, it was announced that the HMRC Upper Tribunal had overturned the First-Tier Tax Tribunal in relation to the VWFS Decision. VWFS was subsequently been given leave to appeal and this was scheduled to be heard in October 2013. However, this was delayed, and the case was heard by the Court of Appeal on 17 April 2015 who overturned the Upper Tribunal's decision ruling in favour of VWFS. HMRC appealed this decision to the Supreme Court, which referred the issue to the Court of Justice of the European Union ("CJEU").

The CJEU has published its determination concerning the VWFS vs HMRC case. The judgement addressed all specific questions referred and agreed with VWFS on all material points. Specifically, the judgment clarifies that a partial exemption method must reflect the taxable sale of the goods, even where general costs are commercially passed on as part of the exempt supplies of credit. We have approached C&E with a view of commencing conversations to finalise our historic claims, rolling up the claim to date and agreeing a new partial exempt method going forward.

The Bank's total exposure in relation to this matter increased to £1,101,000 (30 June 2018: £975,000 and 31 December 2018: £1,049,000), comprising the debtor balance referred to above plus an additional £113,000 (30 June 2018: £113,000 and 31 December 2018: £113,000) VAT reclaimed under the partial Exemption Special Method, in the period from Q4 2011 to Q3 2012 (from Q4 2012 the Bank reverted back to the previous method). On the basis of the discussions and correspondence which have taken place between the Bank and C&E, in addition to the VWFS case, the Directors are confident that the VAT claim referred to above will be secured.

15. Goodwill

As at:	30 June 2019 £000 (unaudited)	30 June 2018 £000 (unaudited)	31 Dec 2018 £000 (audited)
Edgewater Associates Limited	**1,849**	1,849	1,849
ECF Asset finance PLC	**454**	454	454
Three Spires Insurance Services Limited	**41**	41	41
Blue Star Business Solutions Limited (Note 20)	**2,188**	-	-
	4,532	2,344	2,344

16. Creditors and accrued charges

As at:	30 June 2019 £000 (unaudited)	30 June 2018 £000 (unaudited)	31 Dec 2018 £000 (audited)
Commission creditors	**1,031**	1,714	758
Other creditors and accruals	**997**	1,383	897
Taxation creditors	**387**	355	355
	2,415	3,452	2,010

17. Block creditors

As at:	30 June 2019 £000 (unaudited)	30 June 2018 £000 (unaudited)	31 Dec 2018 £000 (audited)
Drawdown 2 – repayable 25/07/2018, interest payable at 5.8%	**-**	15	-
Drawdown 3 – repayable 08/03/2019, interest payable at 6.5%	**-**	400	138
	-	415	138

18. Loan notes

As at:	Notes	30 June 2019 £000 (unaudited)	30 June 2018 £000 (unaudited)	31 Dec 2018 £000 (audited)
Related parties				
J Mellon	**JM**	**1,750**	1,750	1,750
Burnbrae Limited	**BL**	**1,200**	1,200	1,200
Southern Rock Insurance Company Limited	**SR**	**460**	460	460
		3,410	3,410	3,410
Unrelated parties	**UP**	**12,461**	12,561	12,461
		15,871	15,971	15,871

JM – Two loans, one of £500,000 maturing on 31 July 2022 with interest payable of 5.0% per annum, and one of £1,250,000 maturing on 26 February 2020, paying interest of 6.5% per annum. Both loans are convertible at the rate of 7.5 pence and 9 pence respectively.

BL – One loan consisting of £1,200,000 maturing on 31 July 2022 with interest payable of 5.0% per annum. Jim Mellon is the beneficial owner of BL and Denham Eke is also a director. The loan is convertible at a rate of 7.5 pence.

SR – One loan consisting of £460,000 maturing on 26 February 2020 with interest payable of 6.5% per annum. The loan is convertible at a rate of 9 pence. John Banks, a Non-executive Director, is also a director of SR.

UP – Thirty-three loans consisting of an average £377,606 with a weighted average interest payable of 5.4% per annum. The earliest maturity date is 14 July 2019 and the latest maturity date is 20 January 2024.

With respect to the convertible loans, the interest rate applied was deemed by the Directors to be equivalent to the market rate at the time with no conversion option.

19. Called up share capital

Ordinary shares of no-par value available for issue	Number
At 30 June 2019, 31 December 2018 and 30 June 2018	200,200,000

Issued and fully paid ordinary shares of no par value	Number	£000
At 30 June 2018	131,096,235	20,732
At 30 June 2019 and 31 December 2018	**131,096,235**	**20,732**

There are four convertible loans of £3,410,000 (2018: £3,410,000).

On 23 June 2014, 1,750,000 share options were issued to Executive Directors and senior management within the Group at an exercise price of 14 pence. The options vest over three years with a charge based on the fair value of 8 pence per option at the date of grant. The period of grant is for 10 years less 1 day ending 22 June 2024. Of the 1,750,000 share options issued, 1,050,000 (30 June and 31 December 2018:1,050,000) remain outstanding; the balance lapsed during 2017.

20. Acquisition of subsidiary

On 16 April 2019, the Group acquired 100% of the shares and voting interest in Blue Star Business Solutions Limited (BBSL), obtaining control of BBSL.

This acquisition is part of the Group's strategy to increase its distribution in the UK broker market. BBSL was formed in 2004 and is based in Hampshire and regulated by the FCA and holds Credit Broking Authorisations. The business is a niche brokerage which focuses on delivering excellent customer service to small and medium sized businesses in the UK that require funding for IT equipment amongst other assets. The Group invested in BBSL to allow it to grow profitably by gaining market share and through its banking subsidiary, Conister Bank Limited, write the majority of its funding requests.

A. Consideration transferred

The following table summarises the acquisition-date fair value of each major class of consideration transferred.

	£000
Cash	**1,500**
Contingent consideration	**946**
	2,446

i. Contingent consideration transferred
The Group has agreed to pay the selling shareholders:

- 50% of net profits in BBSL for 3 years post completion; and
- 50% of the incremental net profit that the Group benefits from as a result of taking up BBSL loan proposals post completion up until the third anniversary.

This is to be paid on each anniversary with a final payment in year 4 for the unrealised tail of the portfolio. The total consideration is to have a cap of £4,000,000 in total.

The contingent consideration is calculated by forecasting 3 years of net profits discounted using an interest rate of 5.0% per annum.

B. Acquisition-related costs

The Group incurred acquisition-related costs of £20,000 relating to external legal fees and due diligence costs. These costs have been included in ‘administrative expenses’ in the Condensed Consolidated Statement of Profit or Loss and Other Comprehensive Income.

C. Identifiable assets acquired, and liabilities assumed

The following table summarises the recognised amounts of assets acquired, and liabilities assumed at the date of acquisition.

	£000
Property, plant and equipment	**288**
Trade and other receivables	**114**
Cash and cash equivalents	**176**
Trade and other payables	**(205)**
Loans and borrowings	**(115)**
Total identifiable net assets acquired	**258**

The fair value of these assets and liabilities have been measured on a provisional basis.

20. Acquisition of subsidiary (continued)

D. Goodwill

The initial accounting for the business combination is incomplete at the period end. The Group continues to obtain information necessary to identify and measure the identifiable assets acquired and the resulting goodwill or gain on a bargain purchase.

The provisional goodwill arising from the acquisition has been recognised as follows:

	£000
Total consideration transferred	2,446
Fair value of identifiable net assets	(258)
Provisional goodwill	**2,188**

21. Regulators

Certain Group subsidiaries are regulated by the Isle of Man Government Financial Services Authority ("FSA") and the Financial Conduct Authority (FCA) in the United Kingdom as detailed below.

The Bank and EWA are regulated by the FSA under a Class 1(1) - Deposit Taking licence and Class 2 - Investment Business licence respectively. The Bank and CFL are regulated by the FCA to provide regulated products and services. MFX is not regulated in both jurisdictions.

22. Contingent Liabilities

The Bank is required to be a member of the Isle of Man Government Depositors' Compensation Scheme which was introduced by the Isle of Man Government under the Banking Business (Compensation of Depositors) Regulations 1991 and creates a liability on the Bank to participate in the compensation of depositors should it be activated.

23. Subsequent events

There were no significant subsequent events identified after 30 June 2019.

24. Approval of interim financial statements

The interim financial statements were approved by the Board on 24 September 2019. The interim report will be available from that date at the Group's website – www.mfg.im and at the Registered Office: Clarendon House, Victoria Street, Douglas, Isle of Man, IM1 2LN. The Group's nominated adviser and broker is Beaumont Cornish Limited, 10th Floor, 30 Crown Place, London, EC2A 4EB.The interim and annual financial statements along with other supplementary information of interest to shareholders, are included on the Group's website. The website includes investor relations information, including corporate governance observance, and contact details.

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